

A COMPARATIVE ANALYSIS: THE TAX SYSTEM IN BRAZIL AND IN THE UNITED STATES

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Brazil is the country of bigger territorial extension of the south hemisphere of the American continent, with 8.5 million km² of continuous area. It has more than 7,400 kilometers of oceanic coasts (Atlantic Ocean) and 15,700 kilometers of terrestrial borders, limiting with all countries of the South America, with exception of Chile and the Equator.



Brazil is a Federative Republic, formed for the Union, 26 States, 1 Federal District and more than 5,500 Cities. The Country is divided in five territorial macro-regions - North, Northeast, Southeast, South and Center-West

Its population is 165.7 million inhabitants (given of May of 2000), the greater of the south cone, being a predominantly urban country, with about 76% of the population living in the cities. Its economically active population (PEA) is around 76 million workers.

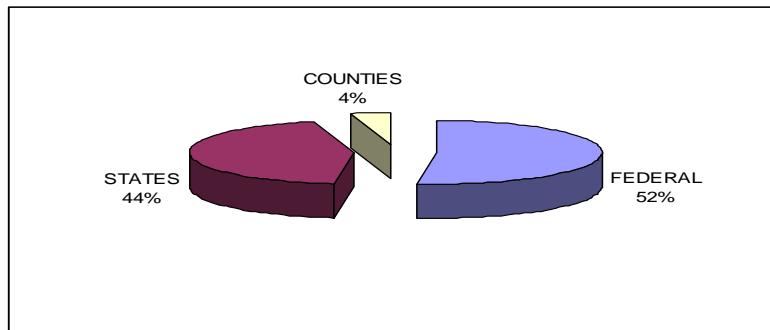
In 2005 Brazil presented GNP (Gross National Product) of US\$ 1.02 trillion. It has a well diversified economy, with a sufficiently ample and modern industrial park, that answers for about 34% of the GNP. The service sector - including commerce and financial sector - predominates currently in the economy, being responsible for about 58.5% of the GNP. Agriculture answers for about 7.5% of the GNP.

As a federative country with strong degree of decentralization, it grants administrative autonomy to all its levels of government. Thus, the Brazilian tax administration has as basic characteristic the multiplicity of tax collecting agencies, exactly reflecting the federative structure of the Country, defined by the Federal Constitution of 1988.

In federal level, the so called Secretaria da Receita Federal (SRF) (Federal Revenue Service), is subordinated to the Department of National Treasury. The SRF has under its ability the

administration of all the Brazilian federal taxes - also of those incidents on the foreign commerce - and of significant part of the social contributions of the Country. The SRF, solely, is responsible for the collection of about 52% of the total amount of Brazilian tax burden.

The next graphic shows the tax share of each government level:

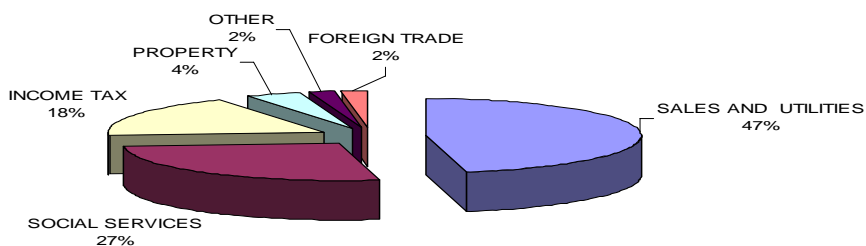


In state level, each of the 26 States and The Federal District has distinct tax administrations, corresponding to the governments of each federative unit. Its ability involves, over all, the administration of the main States' tax, very similar to V.A.T., so called I.C.M.S., the Tax on Circulation of Merchandises and Services. The administrations state taxes collect about 27% of the Brazilian tax burden.

Finally, Brazil has about 5.500 cities, that have constitutional ability to collect and, therefore, to manage local taxes and fees. This governmental level withholds more than 4% of the National tax revenue.

In 2005 the tax burden in Brazil, considered the three levels of government - Federal, State and Counties, corresponded to 30.27% of the GNP, representing a total collection of R\$ 1,305,731 billion (US\$ 593,545,000).

The graph below shows the shares of taxes based on its nature:



The Brazilian Constitution determines Federal fund transfers, aiming to correct regional disequilibria and to propitiate a better distribution of revenues, in accordance with the distinct social necessities of States, Cities and regions of the Country. Therefore, these constitutional fund transfers are automatic and have a decentralizing nature.

If we compare the Brazilian tax system with the U.S. tax system, we may find several differences and similarities. In The U.S. each government imposes its own taxes, there is shifting of money through shared expenditure programs from higher levels of government, but, different from Brazil, more than one government may exploit the major revenue sources.

For instance, the federal government, many states and some local governments impose income taxes. The most important taxes are income tax at the federal level, sales taxes at the state level, and property taxes at the local level. At the federal level, the income tax applies to every individual, corporations, trusts, states, and partnerships. Exclusively individuals file individual tax returns.

For corporations and other entities it is required to file the corporation income tax return. They are taxed in their gross income, also after subtracting allowable deductions. Domestic corporations are taxed on worldwide income, but in many cases they receive credit for tax paid to foreign countries.

Exactly like in Brazil, certain nonprofit organizations (i.e., charitable, religious, educational, and medical organizations, trade associations, labor unions, and fraternal organizations) are exempted from corporate income tax.

At the dawn of the 21st Century in the modern nations involved in the new environment of globalization, the taxation systems are convergent to similar patterns in order to allow more dynamic international trade, with a common and growing demand for a more simplified and efficient tax system that strongly take in consideration consensual concepts of simplification, rationality, investment attractiveness, incentive to economic and social development, enhancing competitiveness and job creation.

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